

# employee plans news

PROTECTING RETIREMENT BENEFITS THROUGH EDUCATING CUSTOMERS

Internal Revenue Service  
Tax Exempt and Government  
Entities Division

A Publication of Employee Plans

## Finally, Final 415 Regs. Published

**Final Income Tax Regulations under section 415** of the Internal Revenue Code were published in today's issue of the *Federal Register*. These regulations provide an extensive update of the regulations under section 415 of the Internal Revenue Code that were originally issued in 1981 regarding limitations on benefits and contributions under qualified plans and certain other retirement plans. Generally, these regulations apply to limitation years beginning on or after July 1, 2007.

The 415 regulations also make conforming changes to regulations under sections 401(a), 401(a)(9), 401(k), 402, 416, and 457, and make other minor corrective changes to regulations under sections 401(a)(4), 414(s), 457, and 924. Moreover, pursuant to section 415(a)(2), the limitations of section 415 also apply to section 403(b) annuity contracts and to simplified employee pensions described in section 408(k). In addition, the limitations of section 415 for defined contribution plans apply to contributions allocated to any individual medical account that is part of a pension or annuity plan established pursuant to section 401(h) and to amounts attributable to medical benefits allocated to an account under a welfare benefit fund established for a key employee pursuant to section 419A(d)(1).

The following is a brief overview of the material addressed in the regulations:

- Current statutory limitations under sections 415(b)(1)(A) and 415(c)(1) applicable for defined benefit and defined contribution plans, respectively.
- Changes to the rules for age adjustments to the applicable limitations under defined benefit plans, under which the dollar limitation is adjusted for commencement before age 62 or after age 65.
- Changes to the rules, including specification of parameters, for benefit adjustments under defined benefit plans.
- Phase-in of the dollar limitation under section 415(b)(1)(A) over 10 years of participation.
- Addition of the section 401(a)(17) limitation on compensation that is permitted to be taken into account in determining plan benefits and the interaction of this requirement with the limitations under section 415.
- Exceptions to the compensation-based limitation for governmental and multiemployer plans.

- Changes to the aggregation rules under section 415(f) under which multiemployer plans are not aggregated with single-employer plans for purposes of applying the compensation-based limitation of section 415(b)(1)(B) to a single-employer plan.
- Repeal of the section 415(e) combined limitation on participation in a defined benefit plan and a defined contribution plan.
- Changes to section 415(c) that were made in conjunction with the repeal of the exclusion allowance under section 403(b)(2).
- Current rounding and base period rules for annual cost-of-living adjustments.
- Changes to section 415(c) under which certain types of arrangements are no longer subject to the limitations of section 415(c) (such as individual retirement accounts other than SEPs) and other types of arrangements have become subject to the limitations of section 415(c) (such as certain individual medical accounts).
- Inclusion in compensation (for section 415 purposes) of certain salary reduction amounts not included in gross income.
- Modification for distributions with annuity starting dates in plan years beginning in years 2004 and 2005 made by PFEA with respect to the interest rate assumptions in section 415(b)(2)(E) for converting certain forms of benefits to an actuarially equivalent straight life annuity.
- The following modifications to section 415 made by the Pension Protection Act of 2006:
  - i. changes to the interest rate assumptions in section 415(b)(2)(E) that are used for converting certain forms of benefits to an equivalent straight life annuity;
  - ii. elimination of the active participation requirement in determining a participant's high-3 years of service in section 415(b)(3);
  - iii. exemption from the section 415(b)(1)(B) compensation limit for certain benefits provided under a defined benefit plan maintained by an organization described in section 3121(w)(3)(A); and
  - iv. expansion of the definition of qualified participant in section 415(b)(2)(H) to include certain participants in a defined benefit plan maintained by an Indian tribal government. ■

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## Director, EP Examinations Named

Monika A. Templeman has been selected as Director, EP Examinations, effective April 1, 2007. Ms. Templeman was formerly the EP Area Manager, Great Lakes Area. Look for an EP Connections with Ms. Templeman in an upcoming edition of the *Employee Plans News*. ■

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